



Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2007



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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Telecommunications as at December 31, 2007 and the statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
March 4, 2008

Saskatchewan Telecommunications

Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2007	2006 (Restated Note 4)
Operating revenues	\$978,025	\$920,053
Operating expenses		
Operations	693,320	656,657
Depreciation and amortization	157,899	141,732
Restructuring charges (Note 7)	45,636	55,009
	896,855	853,398
Income from operations	81,170	66,655
Other items	2,033	3,470
Interest and related items (Note 8)	(26,163)	(24,944)
Net income	57,040	45,181
Other comprehensive income	-	-
Comprehensive income	\$57,040	\$45,181

See Accompanying Notes

Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2007	2006 (Restated Note 4)
Retained earnings, beginning of year as previously reported	\$175,481	\$167,481
Prior period adjustments:		
Recalculation of interest (Note 4)	(3,493)	(2,674)
	171,988	164,807
Change in accounting policies (Note 2)	280	-
Retained earnings, beginning of year as restated	172,268	164,807
Net income	57,040	45,181
	229,308	209,988
Dividends	37,076	38,000
Retained earnings, end of year	\$192,232	\$171,988

See Accompanying Notes

Saskatchewan Telecommunications

Statement of Financial Position

As at December 31, (Thousands of dollars)	2007	2006 (Restated Note 4)
Assets		
Current assets		
Accounts receivable (Note 16a)	\$99,075	\$89,636
Inventories	8,662	6,004
Prepaid expenses (Note 16a)	12,067	10,193
	119,804	105,833
Property, plant and equipment (Note 9)	904,220	897,564
Sinking funds (Note 10)	45,566	41,164
Other assets (Note 11)	70,733	55,910
	\$1,140,323	\$1,100,471
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	\$2,479	\$7,966
Accounts payable and accrued liabilities (Note 16a)	134,543	136,221
Dividend payable	5,545	8,960
Services billed in advance (Note 16a)	44,116	39,483
Current portion of long-term debt (Note 12)	23,134	15,959
	209,817	208,589
Deferred revenue	12,274	11,606
Notes payable (Note 13)	171,339	133,014
Long-term debt (Note 12)	219,089	239,702
	612,519	592,911
Province of Saskatchewan's equity		
Equity advances (Note 14)	335,572	335,572
Retained earnings	192,232	171,988
	527,804	507,560
	\$1,140,323	\$1,100,471

See Accompanying Notes

On behalf of the Board:



Grant Kook



Blair Davidson

Saskatchewan Telecommunications

Statement of Cash Flows

For the year ended December 31,
(Thousands of dollars)

2007

2006
(Restated
Note 4)

Operating activities

Net income	\$57,040	\$45,181
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	157,899	141,732
Pension expense of defined benefit plan	(5,810)	331
Special termination benefits cost (Note 18)	31,884	43,399
Contributions to defined benefit pension plans	(40,321)	(35,442)
Sinking fund earnings	(1,552)	(2,084)
Change in fair value of financial instruments	(111)	-
Other	(161)	(2,914)
Net change in non-cash working capital (Note 16b)	(10,237)	4,000

Cash provided by operating activities	188,631	194,203
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Investing activities

Property, plant and equipment expenditures	(164,468)	(224,560)
Cash used in investing activities	(164,468)	(224,560)

Financing activities

Increase in notes payable to Holdco	38,325	102,483
Equity advance from Holdco	-	1,000
Sinking fund installments	(2,216)	(1,866)
Repayment of long-term debt	(13,601)	(32,617)
Capital lease obligations	(19)	(2,462)
Dividends paid	(40,491)	(38,444)
Financing leases	(674)	(1,325)

Cash provided by (used in) financing activities	(18,676)	26,769
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Increase (decrease) in cash	5,487	(3,588)
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Cash and cash equivalents, beginning of year	(7,966)	(4,378)
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Cash and cash equivalents, end of year	\$(2,479)	\$(7,966)
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Comprised of:

Bank indebtedness	\$(2,479)	\$(7,966)
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See Accompanying Notes

Notes to Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Act* and, as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the *Telecommunications Act* (Canada).

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 – Change in accounting policies

Effective January 1, 2007, the Corporation adopted the accounting recommendations for accounting changes (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506) in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policies only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of section 1506 has had no material impact on these consolidated financial statements.

Effective January 1, 2007, the Corporation adopted the accounting recommendations for comprehensive income (CICA Handbook Section 1530), financial instruments - recognition and measurement (CICA Handbook Section 3855), financial instruments – disclosure and presentation (CICA Handbook Section 3861), hedges (CICA Handbook Section 3865) and equity (CICA Handbook Section 3251) in accordance with the transitional provisions of the sections. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, non-financial derivatives and embedded derivatives, and describe when and how hedge accounting may be applied. CICA Handbook Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles in Canada (Canadian GAAP).

Upon adoption of these new standards, the Corporation designated its cash, cash equivalents, short-term investments and sinking funds as held-for-trading which are measured at fair value. Unrealized changes in the fair value of these financial instruments are included in net income. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable, accrued

Notes to Financial Statements

Note 2 – Change in accounting policies, continued

liabilities and long-term debt are classified as other financial liabilities which are measured at amortized cost using the effective interest method. The result of these designations is an increase in retained earnings and sinking funds of \$523,086 at January 1, 2007.

Sinking funds were previously presented as a reduction of long-term debt based on requirements to contribute to sinking funds for specific debt issues. Upon adoption of the new standards, sinking funds are disclosed as non-current assets and long-term debt is reported at the carrying amount of the debt. The impact at January 1, 2007 was to increase assets and long-term debt by \$41,686,926.

The costs of issuing long-term debt had been deferred and amortized in equal annual amounts. The new recommendations require the use of the effective interest method to recognize the issuing costs whereby the amount recognized varies over the term of the debt and provides a constant return based on the principal outstanding. These amounts have been reclassified as part of the carrying value of the long-term debt.

As at January 1, 2007, the Corporation adjusted the unamortized discount to what the balance would have been had the effective interest method been used since the issuance of the debt. The impact was a decrease in the unamortized discount balance and a decrease in retained earnings of \$242,802.

Total adjustments to January 1, 2007 balances are as follows:

	(Thousands of dollars)
Increase (decrease)	
Unamortized discount on long-term debt	\$(243)
Sinking funds	41,687
Other assets	(548)
Long-term debt	40,616
Retained earnings	280

Derivatives may be embedded in other host instruments. Under the new standards embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, when the embedded derivative has the same terms as those of a stand-alone derivative, and the combined contract is not held-for-trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in net income. The Corporation selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at December 31, 2007, and December 31, 2006, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

The Corporation had no "other comprehensive income or loss" transactions during the period and no opening or closing balances for accumulated other comprehensive income or loss.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at fair value.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization on property, plant and equipment is computed on the straight-line basis, using rates determined by a continuing program of engineering studies for each class of property in service.

Asset	Estimated useful life
Buildings	25 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	3 - 17 years

With respect to property, plant and equipment acquired and constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2007.

Intangible assets

Intangible assets are recorded at cost of acquisition or development, including where applicable direct development costs, overhead costs directly attributable to development activity and betterment costs. Intangible assets with a finite useful life are amortized using the straight-line method at rates that will reduce the cost to any estimated residual value over the estimated useful life.

<u>Asset</u>	<u>Estimated useful life</u>
Spectrum licenses	3 - 10 years

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an accrual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan

The Corporation accrues its obligations under the Saskatchewan Telecommunications Pension Plan and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

Expected return on plan assets is calculated based on a five year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefits (8.3 years). This represents the period that economic benefits from the amendments are expected to be realized.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

When the restructuring of a benefit plan results in a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

b) Defined contribution pension plan

Defined contribution plan costs are recognized as employees render services during the year.

c) Service recognition defined benefit plan

The Corporation provides a service recognition defined benefit plan for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Notes to Financial Statements

Note 4 – Prior period adjustment

Interest on notes payable due to Holdco had been incorrectly calculated for the years 2000 to 2006. The financial statements have been retroactively restated for the correction of the interest calculation.

The effect of the correction on the financial statements at December 31, 2006 is as follows:

	(Thousands of dollars)
Interest and related costs increased	\$819
Net income decreased	819
Notes payable increased	3,493
Beginning retained earnings decreased	2,674
Ending retained earnings decreased	3,493
Cash provided by notes payable to Holdco increased	3,493

Note 5 – Accounting policy developments

Capital disclosures

The new recommendations of the CICA for capital disclosures (CICA Handbook Section 1535) will become effective for the Corporation's 2008 fiscal year. The new recommendations establish standards for disclosing information about the Corporation's capital (debt and equity) and how it is managed. Specifically, information should be disclosed to enable users of the financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. The Corporation does not expect to be materially affected by the new recommendations.

Financial instruments - disclosures

The new recommendations of the CICA for financial instruments - disclosures (CICA Handbook Section 3862) replace the existing disclosure recommendations of financial instruments - disclosure and presentation (CICA Handbook Section 3861). The new recommendations will apply to the Corporation's 2008 fiscal year and will result in additional disclosures related to financial instruments, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

Financial instruments - presentation

The existing recommendations of the CICA for financial instruments presentation included in financial instruments - presentation and disclosure (CICA Handbook Section 3861) are carried forward, unchanged as financial instruments - presentation (CICA Handbook Section 3863).

Inventories

The new recommendations of the CICA for inventories (CICA Handbook 3031) will become effective for fiscal years beginning on or after January 1, 2008, with early adoption permitted. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. The Corporation does not expect to be materially affected by the new recommendations.

Notes to Financial Statements

Note 5 – Accounting policy developments, continued

International Financial Reporting Standards

The Accounting Standards Board of the CICA has adopted a strategic plan that will result in Canadian GAAP converging with International Financial Reporting Standards (IFRS). It is anticipated that the transition process will be completed by 2011, at which time Canadian GAAP will be fully converged with IFRS for public accountable enterprises. Throughout the transition period, standards subject to joint-convergence projects may be adopted prior to full convergence. Standards not subject to joint convergence projects will be exposed in an omnibus manner for adoption at the time of convergence. Throughout the process there will be assessments of progress toward convergence, the first of which will be a progress review by the Accounting Standards Board, to be released by March 31, 2008. This review will confirm the implementation date for convergence. Due to the evolving nature of IFRS through convergence projects, it is difficult to assess the impact of convergence, if any, on the Corporation.

Rate regulated operations

The CICA has amended certain sections of the CICA Handbook to remove the rate regulation exemption for recognition of certain assets and liabilities arising from rate regulation as well as other recognition and measurement guidance. These changes will be effective for year-ends beginning on or after January 1, 2009. The Corporation is currently assessing the impact of implementation of these recommendations, but does not expect to be materially affected.

Note 6 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC. However, the CRTC only regulates rates for specific telecommunications services and only in locations where the Commission believes that the level of competition in that service is not high enough that market forces can be relied on to protect the interests of customers. For these 'non-forborne' services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the long run incremental cost of the service, calculated according to CRTC costing rules.

The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on long run incremental costs plus approved mark-ups.

In addition, the CRTC has implemented a price cap framework which: limits the Corporation's flexibility in the pricing of some rate regulated retail services; subjects certain competitor service rates to potential annual decreases; and prohibits the Corporation from altering basic residential access rates in areas deemed to be Low Cost Serving Areas.

The CRTC has established a subsidy mechanism aimed at keeping basic residential access affordable in areas deemed by the CRTC to be High Cost Serving Areas (HCSAs). In these areas the Corporation receives a subsidy from the National Contribution Fund equal to the difference between long-run incremental costs in these areas and the rates charged to subscribers. Therefore the revenue received by the Corporation in these areas is effectively the rate charged to subscribers plus the subsidy per line. The cost component of the subsidy calculation amount is adjusted annually based on assumed productivity gains less inflation. The rate component is also adjusted annually as the CRTC has given the Corporation the ability to make annual rate increases equal to the rate of inflation in HCSAs, however, even if the

Notes to Financial Statements

Note 6 – Rate regulation, continued

Corporation does not raise rates in these areas, the increase is assumed to have been applied and the subsidy per line is decreased.

Approximately 30% (2006 – 34%) of the Corporation's operating revenues are currently subject to CRTC rate regulation. Rate regulation does not result in the Corporation selecting accounting policies that would differ from generally accepted accounting principles.

Note 7 – Restructuring charges

During 2007, \$45,635,727 (2006 - \$55,009,262) was recorded to restructuring charges. The charges relate to phases two and three of a three phase voluntary early retirement program (ERP) with each phase occurring over a two year period.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. During 2007, 163 employees (2006 – 184) elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately \$20.8 million is expected to be incurred in 2008. These costs are not eligible for recognition at December 31, 2007 and will be expensed as incurred.

The table below provides a summary of the costs recognized and the liability recorded at December 31:

	2007	2006
	(Thousands of dollars)	
Balance in accounts payable and accrued liabilities, beginning of year	\$8,067	\$8,635
Restructuring charges	45,636	55,009
Less:		
Cash payments	12,048	12,178
Special termination benefits costs (Note 18)	31,884	43,399
Balance in accounts payable and accrued liabilities, end of year	\$9,771	\$8,067

Note 8 – Interest and related items

	2007	2006
	(Thousands of dollars)	
Interest expense	\$27,826	\$27,028
Less:		
Sinking fund earnings	1,552	2,084
Change in fair value of financial instruments	111	-
	\$26,163	\$24,944

Notes to Financial Statements

Note 9 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2007	2006
			(Thousands of dollars)	
Buildings	\$180,248	\$97,102	\$83,146	\$83,313
Plant and equipment	2,281,058	1,683,350	597,708	546,379
Office furniture, equipment and leaseholds	168,702	76,948	91,754	76,775
Plant under construction	111,999	-	111,999	170,576
Materials and supplies	14,682	-	14,682	16,034
Land	4,931	-	4,931	4,487
	\$2,761,620	\$1,857,400	\$904,220	\$897,564

Depreciation and amortization for the year totaled \$157,800,585 (2006 - \$141,524,932).

Note 10 – Sinking funds

Sinking funds are established under conditions attached to a portion of the long-term debt. The fund is administered by the Province of Saskatchewan and includes the Corporation's required contributions, its proportional share of earnings and its proportional share of revaluation gains or losses.

The Corporation has recorded an increase in the fair value of financial instruments of \$111,299 for the year ended December 31, 2007, which has been included with interest and related items.

The changes in the carrying amount of sinking funds are as follows:

	2007	2006
	(Thousands of dollars)	
Sinking funds, beginning of year	\$41,164	\$37,214
Valuation adjustment, January 1, 2007	523	-
Installments	2,216	1,866
Earnings	1,552	2,084
Valuation adjustment, during the year	111	-
Sinking funds, end of year	\$45,566	\$41,164

Notes to Financial Statements

Note 11 – Other assets

	2007	2006
	(Thousands of dollars)	
Deferred pension costs (Note 18)	\$60,761	\$46,569
Deferred expenses	8,378	7,795
Financing leases	1,274	1,138
Other	320	408
	\$70,733	\$55,910

Amortization for the year totalled \$86,208 (2006 - \$207,355).

Note 12 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2007	2006
			(Thousands of dollars)	
Province of Saskatchewan				
Canadian dollar issues (a) (b)	1 - 5	7.16	\$81,053	\$94,687
Canadian dollar issue (b)	13	10.08	125,717	125,770
Canadian dollar issues (b)	22	5.60	35,000	34,728
			241,770	255,185
Other			453	476
Total long-term debt			242,223	255,661
Less current portion			23,134	15,959
			\$219,089	\$239,702

- (a) Long-term debt totaling \$20,779,000 (2006 - \$34,376,000) is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.
- (b) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the debt outstanding (see note 10).

Sinking fund installments and anticipated long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)
2008	\$23,134
2009	2,236
2010	54,593
2011	1,616
2012	1,616

Notes to Financial Statements

Note 13 – Notes payable

The balance represents amounts due to Holdco which are unsecured and bear interest at the Holdco's borrowing rate of 3.85% (2006 – 4.20%), with no fixed repayment terms.

Note 14 – Equity advances

The Corporation's equity financing is in the form of equity advances of \$250,000,000 (2006 - \$250,000,000) from CIC and \$85,572,000 (2006 - \$85,572,000) from Holdco.

Note 15 – Commitments and contingencies

Commitments

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2008	\$40,827
2009	33,248
2010	29,284
2011	12,448
2012	12,421

The above payments include \$27,889,100 for leases with related parties.

Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the Plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs renewed their application for certification and the renewed application was heard in June of 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. The Corporation, together with all other defendants in the proceedings have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. The Corporation believes that it has strong defenses to the allegations and that legal errors were made by the court in the certification proceeding. The Corporation's leave to appeal application is presently before the Court of Appeal. No specific date has yet been set for the hearing of that application.

Notes to Financial Statements

Note 15 – Commitments and contingencies, continued

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that the Corporation wrongfully obtained its Multipoint Communication Systems (MCS) license in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the *Competition Act*. The Plaintiff claims damages in excess of \$87 million. The Corporation believes that it has strong defenses to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff has appealed the decision to the Saskatchewan Court of Appeal.

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2007 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

Deferral account

The previous price cap framework, which expired in May of 2007, included a mechanism known as the "deferral account". This mechanism was used to mitigate potential adverse effects on competition in the local market which the CRTC felt might be caused by mandated reductions in the price of local residential service. Rather than lowering rates, as the price cap formula would otherwise have required, the CRTC directed the Corporation to keep a record of the amount of revenue which would otherwise have been lost. Various adjustments to this amount were allowed or required as a result of specific CRTC policy directives.

A new price cap framework, which no longer contains a deferral account mechanism, became effective May 2007. However, there is an outstanding deferral account balance generated during the previous price cap period, which, in Saskatchewan must be used to fund initiatives such as service improvements for the disabled. The Corporation estimates this accumulated commitment to be \$1.5 million as of December 31, 2007.

On January 17, 2008, the CRTC released its decision in the proceeding determining the specific uses of the deferral account. The CRTC approved SaskTel's proposals, which will see the Corporation spending the estimated balance of \$1.5 million in the deferral account over the next four years on a combination of capital and expense items designed to improve service for the disabled.

Notes to Financial Statements

Note 16 – Additional financial information

a) Balance sheet

	2007	2006
	(Thousands of dollars)	
Accounts receivable		
Customer accounts receivable	\$78,867	\$71,602
Accrued receivables - customer	4,933	5,139
Allowance for doubtful accounts	(3,997)	(4,240)
	79,803	72,501
High cost serving area subsidy	5,651	5,894
Other	13,621	11,241
	\$99,075	\$89,636
Prepaid expenses		
Prepaid expenses	\$5,754	\$4,971
Deferred service connection charges	6,313	5,222
	\$12,067	\$10,193
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	\$75,537	\$74,232
Payroll and other employee-related liabilities	50,591	54,006
Taxes payable	5,533	4,716
Interest payable	2,790	3,229
Other	92	38
	\$134,543	\$136,221
Services billed in advance		
Advance billings	\$32,787	\$30,037
Deferred service connection charges	7,994	6,783
Customer deposits	3,335	2,663
	\$44,116	\$39,483

b) Supplementary cash flow information

	2007	2006
	(Thousands of dollars)	
Net change in non-cash working capital		
Accounts receivable	\$(8,906)	\$6,140
Inventories	(2,658)	(386)
Prepaid expenses	(2,457)	(3,894)
Accounts payable and accrued liabilities	(1,474)	(2,910)
Services billed in advance	4,633	3,025
Deferred revenues	625	2,025
	\$(10,237)	\$4,000
Interest paid	\$21,901	\$24,268

Notes to Financial Statements

Note 17 – Financial instruments

The Corporation's financial instruments include cash, accounts receivable, sinking funds, accounts payable and accrued liabilities, short-term obligations and long-term debt, which by their nature are subject to risks.

Price risk – currency risk

The Corporation is exposed to currency risk primarily through transactions with foreign suppliers and short-term foreign commitments. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments. At December 31, 2007, there were no derivative financial instruments outstanding.

Price risk – interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on sinking funds, short-term obligations and long-term debt. Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation.

The average effective interest rate on the Corporation's long-term debt was 8.40% while the average interest rate on long-term debt was 8.46%.

Price risk – market risk

The Corporation is exposed to market risk on sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The majority of the market risk results from the sinking funds which are managed based on market conditions, to coincide with the related debt maturities.

Credit risk

The Corporation is exposed to credit risk through its accounts receivable. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary. Provisions for credit losses are maintained and regularly reviewed by the Corporation.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and short-term obligations approximates their fair values due to the short-term maturity of these financial instruments.

Notes to Financial Statements

Note 17 – Financial instruments, continued

Sinking funds are recorded at fair value based on quoted market prices for the securities held by the fund.

The fair values of the Corporation's long-term debt are estimated based on quoted market prices for the issues or for similar issues.

(Thousands of dollars)	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, Province of Saskatchewan	\$241,770	\$318,868	\$255,185	\$340,503

Note 18 – Employee future benefits

The Corporation has a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c). The defined benefit pension plan for certain employees has been closed to new membership since 1977.

a) Defined benefit pension plan

The defined benefit pension plan is registered under *The Pension and Benefit Act, 1992*, Saskatchewan, the *Income Tax Act*, Canada and is regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every 3 years in accordance with *The Pension and Benefit Act, 1992*, Saskatchewan, to determine the actuarial present value of the accrued pension benefit. The latest valuation is dated July 25, 2007 and was performed as of December 31, 2006.

The defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met. Pensions are subject to annual indexing with the Consumer Price Index (CPI) up to a maximum of 2% per year.

For employees that retire before the age of 65 but meet other age plus service requirement either a reduced or unreduced pension may be payable.

The introduction of the ERP resulted in a curtailment to the defined benefit pension plan and recognition of special termination benefits costs. The impact of the curtailment was to reduce the accrued benefit obligation by \$24,987,614 (2006 - \$26,596,139). Special terminations benefits costs totaled \$31,884,084 (2006 - \$43,399,326).

Notes to Financial Statements

Note 18 – Employee future benefits, continued

Key assumptions used as inputs to the actuarial calculations are:

	2007	2006
Discount rate	5.50%	5.15%
Expected return on plan assets	6.75%	6.75%
Inflation rate	2.50%	2.50%
Expected salary increase	3.00%	3.00%
Post-retirement index (not to exceed 2%)	100% of CPI	100% of CPI

The table below shows the allocation of pension plan assets:

Asset category	2007	2006
Equity securities	52.9%	55.5%
Bonds	27.9%	29.0%
Short-term investments (treasury bills, notes and commercial paper)	11.4%	8.3%
Real estate	7.8%	7.2%
	100.0%	100.0%

The table below shows the components of the defined pension plan cost:

	2007	2006
	(Thousands of dollars)	
Current service cost – defined benefit plan	\$(4,436)	\$(7,480)
Interest cost	(52,328)	(52,241)
Expected return on pension plan assets	59,897	59,455
Special termination benefits costs	(31,884)	(43,399)
Amortization of net transitional asset	11,651	11,651
Amortization of past service costs	(3,808)	(4,220)
Amortization of actuarial loss	(5,166)	(6,307)
Impact of settlement	-	(2,133)
Net pension cost	\$(26,074)	\$(44,674)

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Notes to Financial Statements

Note 18 – Employee future benefits, continued

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31, 2007 and 2006.

Accrued benefit obligation	2007	2006
	(Thousands of dollars)	
Accrued benefit obligation, beginning of year	\$1,049,368	\$1,029,502
Current service cost	5,622	9,124
Curtailement gain	(24,988)	(26,596)
Interest cost	52,329	52,548
Benefits paid	(58,529)	(64,656)
Impact due to change in discount rate	(40,242)	6,047
Special termination benefits costs	31,884	43,399
Accrued benefit obligation, end of year	\$1,015,444	\$1,049,368

Plan assets	2007	2006
	(Thousands of dollars)	
Fair value of plan assets, beginning of year	\$1,007,653	\$917,733
Actual return on plan assets	54,080	114,954
Employer contributions	40,265	37,977
Employee contributions	1,186	1,645
Benefits paid	(58,529)	(64,656)
Fair value of plan assets, end of year	\$1,044,655	\$1,007,653

Deferred pension costs	2007	2006
	(Thousands of dollars)	
Funded status surplus (deficit)	\$29,211	\$(41,715)
Unamortized transitional asset	(15,496)	(27,147)
Unamortized past service costs	4,595	8,404
Unamortized net actuarial losses	42,451	107,027
Deferred pension costs (included with other assets)	\$60,761	\$46,569

Notes to Financial Statements

Note 18 – Employee future benefits, continued

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 6% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2007 pension cost and employer contributions for the Public Employees Pension Plan are \$15,125,062 (2006 - \$12,505,702).

c) Service recognition defined benefit plan

The service recognition defined benefit program provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2006, the service recognition defined benefit program was curtailed effective March 19, 2005.

Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service at March 19, 2005 until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2007	2006
Discount rate	5.00%	4.60%
Expected salary increase	3.00%	3.00%
Estimated average remaining employee service life	14.1 years	14.1 years

Accrued benefit obligation

	2007	2006
	(Thousands of dollars)	
Accrued benefit liability, beginning of year	\$19,356	\$20,897
Defined benefit service cost	1,256	1,333
Benefit payments	(2,840)	(2,874)
Accrued benefit liability, end of year	\$17,772	\$19,356

Notes to Financial Statements

Note 19 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as “related parties”). Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2007	2006
	(Thousands of dollars)	
Operating revenues	\$75,205	\$56,681
Operating expenses	51,790	48,302
Other items	89	13
Accounts receivable	7,023	4,926
Property, plant and equipment expenditures	1,368	3,468
Accounts payable and accrued liabilities	13,168	12,923

The Corporation participates in customer solutions which may involve delivery of the Corporation’s services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 20 – Comparative figures

Certain of the 2006 figures have been reclassified to conform to the current year’s presentation.



